

STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF EXAMINATION  
OF

WASATCH CREST MUTUAL INSURANCE CO.

of

Salt Lake City, Utah

as of

December 31, 1994

## TABLE OF CONTENTS

<b>SALUTATION</b>	1
<b>SCOPE OF EXAMINATION</b>	1
Period Covered by Examination	1
Examination Procedure Employed	2
Status of Adverse Findings, Material Changes in the Financial Statement and Other Significant Regulatory Information Disclosed in the Previous Examination Report	2
<b>HISTORY</b>	2
General	2
Membership	2
Dividends to Policyholders	3
Management	3
Board of Directors	3
Officers	4
Committees	5
Conflicts of Interest	5
Corporate Records	5
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales Through Reinsurance	5
Surplus Debentures	6
<b>AFFILIATED COMPANIES</b>	6
Holding Company System	6
Agreements With Affiliates	7
<b>FIDELITY BOND AND OTHER INSURANCE</b>	7
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b>	7
Pension	7
Stock Ownership	7
Insurance Plans	7
<b>STATUTORY DEPOSITS</b>	8
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b>	8
Policy Forms and Underwriting	8

Territory .....	9
Market Conduct .....	10
<b>REINSURANCE</b> .....	11
Assumed .....	11
Ceded .....	11
<b>ACCOUNTS AND RECORDS</b> .....	12
<b>FINANCIAL STATEMENTS</b> .....	13
Balance Sheet .....	14
Summary of Operations .....	16
Capital and Surplus Account .....	17
<b>NOTES TO FINANCIAL STATEMENT</b> .....	18
<b>CAPITAL AND SURPLUS</b> .....	21
<b>SUMMARY</b> .....	23
<b>CONCLUSION</b> .....	24

October 23, 1995

Honorable Robert E. Wilcox, ASA, FCA, MAAA  
Chairman, NAIC Financial Condition (EX4) Subcommittee  
Insurance Commissioner  
State of Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Honorable Deborah Senn  
Secretary, Western Zone, NAIC  
Insurance Commissioner  
Washington Department of Insurance  
P. O. Box 40255  
Olympia, Washington 98504-0255

Pursuant to your instructions and in compliance with statutory requirements, an examination has been conducted, as of December 31, 1994, of the financial condition and business affairs of the

**WASATCH CREST MUTUAL INSURANCE CO.  
SALT LAKE CITY, UTAH**

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The Company was last examined as of December 31, 1992 by the State of Utah Insurance Department. The current examination, conducted by the State of Utah Insurance Department, covers the period from January 1, 1993 through December 31, 1994. Significant transactions and/or events occurring subsequent to December 31, 1994 and noted during the course of this examination were also reviewed.

### Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and the manner in which its business was conducted during the two-year period examined. A detailed examination was made of the assets and liabilities at December 31, 1994. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations and included such tests of accounting records and review of Company affairs and practices to the extent considered necessary.

Insurance Regulatory Information Reports, Certified Public Accountant Reports and working papers were reviewed. Confirmation of ownership, location and amount of bonds, stocks, and deposit in banks was performed by the examiner.

A certificate of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was executed and provided by the Company's management.

### Status of Adverse Findings, Material Changes in the Financial Statement and Other Significant Regulatory Information Disclosed in the Previous Examination Report

Disclosures in the previous examination report were resolved during the period under examination.

## **HISTORY**

### General

The Company was incorporated under the laws of the State of Utah as a mutual insurance company on September 30, 1976. The Company's Articles of Incorporation specify that the primary purpose of the organization is "[t]o engage in, render and transact all lines and forms of casualty insurance and related lines of insurance business."

By amendment to the Articles of Incorporation dated November 4, 1994, the name of the Company was changed from Energy Mutual Insurance Company to Wasatch Crest Mutual Insurance Co. There were no other amendments to the Articles of Incorporation during the period under examination.

### Membership

Policyholders are members of this mutual insurer.

### Dividends to Policyholders

No dividends have been paid to policyholders.

### Management

The Company's Articles of Incorporation provide that its governing body shall be its Board of Directors. The number of Directors shall be at least five but not more than nine. Directors need not be members of the corporation but shall be elected by the membership at the annual meeting of the policyholders.

### Board of Directors

Directors serving as of December 31, 1994, were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Gordon B. Boyle Murray, Utah	President and Chief Operating Officer Wasatch Crest Mutual Insurance Co., First Continental Life & Accident Insurance Company, and Electric Mutual Benefit Association
Orrin T. Colby Jr. South Salt Lake, Utah	Chairman of the Board of Directors and Chief Executive Officer Wasatch Crest Mutual Insurance Co., First Continental Life & Accident Insurance Company, and Electric Mutual Benefit Association Chairman - Utah Health Data Committee Director and Secretary - Utah Transit Authority
J. Brett Harvey Sandy, Utah	President - Interwest Mining Company President and Director - Centralia Mining Company, Energy West Mining Company, Glenrock Coal Company, and Bridger Coal Company Vice President - PacifiCorp Director - Trapper Mining Company, First Continental Life & Accident Insurance Company, Wasatch Crest Mutual Insurance Co., and Electric Mutual Benefit Association

Verl R. Topham  
Salt Lake City, Utah

Senior Vice President and General Counsel,  
PacifiCorp  
Chairman - PacifiCorp Foundation  
Director - PacifiCorp, PacifiCorp Trans, Inc.  
First Continental Life & Accident Insurance  
Company, Wasatch Crest Mutual Insurance  
Co., Electric Mutual Benefit Association  
and First Interstate Bank of Utah, N.A.

H. Arnold Wagner  
Salt Lake City, Utah

Director - First Continental Life & Accident  
Insurance Company, Wasatch Crest Mutual  
Insurance Co. and Electric Mutual Benefit  
Association  
Controller - PacifiCorp d.b.a. Utah Power  
Assistant Secretary - PacifiCorp

Harold C. Yancey  
Centerville, Utah

Director - First Continental Life &  
Accident Insurance Company, Wasatch  
Crest Mutual Insurance Co. and Electric  
Mutual Benefit Association  
Insurance Consultant

### Officers

The Bylaws require that the officers be elected by the Board of Directors annually at the first meeting of the Board following each annual meeting of the members of the corporation.

Officers serving as of December 31, 1994, were as follows:

#### Name and Residence

#### Office

Orrin T. Colby, Jr.  
South Salt Lake, Utah

Chairman of the Board and Chief Executive  
Officer

Gordon B. Boyle  
Murray, Utah

President and Chief Operating  
Officer

William J. Worsley  
West Jordan, Utah

Vice President - Finance,  
Secretary and Treasurer

Cindy O. Biehn  
Farmington, Utah

Vice President - Claims Administration

## Committees

Committees appointed by the Board of Directors and the designated members of each as of December 31, 1994 were as follows:

### Executive Committee

Orrin T. Colby Jr., Chairman  
Harold C. Yancey  
Gordon B. Boyle

### Audit Committee

H. Arnold Wagner, Chairman  
J. Brett Harvey, Jr.  
Harold C. Yancey

### Investment Committee

Verl R. Topham, Chairman  
Gordon B. Boyle  
H. Arnold Wagner

## Conflicts of Interest

The Company maintains a formal conflict of interest policy and an established procedure for disclosure of a material interest or affiliations that might tend to influence a board member, officer or employee in the performance of their duties.

## Corporate Records

The minutes of the meetings of the Members, Board of Directors and Committees of the Board of Directors, for the years included in the examination, were reviewed. The minutes indicate that the Company operates within the scope of its authority and that the Directors are properly informed of, and participate in Company affairs.

A copy of the report of examination conducted by the State of Utah Insurance Department as of December 31, 1992, was provided to each member of the Board of Directors on August 16, 1993.

Acquisitions, Mergers, Disposals,  
Dissolutions, and Purchases or Sales  
Through Reinsurance

Pursuant to agreement between the Company, Group Hospitalization and Medical Services, Inc. and First Continental Life & Accident Insurance Company, the Company acquired 100% ownership of First Continental Life & Accident Insurance Company. The acquisition was approved by the Insurance Commissioner of the State of Utah on March 31, 1994. The



transaction closed on April 1, 1994.

### Surplus Debentures

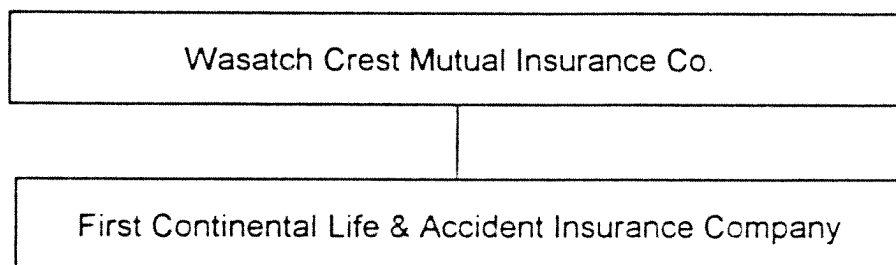
Pursuant to agreement effective January 1, 1993 and in consideration of the mutual promises and covenants contained therein, the Company issued a Surplus Fund Certificate, in the amount of \$5,295,666, to a policyholder and former affiliate.

Pursuant to the terms of the Surplus Fund Certificate, interest accrues at a rate which is .25% less than the average rate earned by the Company on its investment in U. S Government securities. Principal and accrued interest is payable only out of the surplus of the Company which is in excess of security surplus as defined in Section 31A-17-303 of the Utah Insurance Code and only with the prior written approval of Insurance Commissioner of the State of Utah. The principal indebtedness and accrued interest represented by the Surplus Fund Certificate shall not, for statutory insurance accounting purposes, constitute a liability nor form a part of the legal liabilities of the Company nor be the basis of any offset.

## **AFFILIATED COMPANIES**

### Holding Company System

The following chart presents the identity of and the relationship between the Company and its wholly owned subsidiary, as reported in its Annual Statement filing as of December 31, 1994:



First Continental Life & Accident Insurance Company is a life insurance company incorporated under the laws of the State of Utah.

An affiliate, Electric Mutual Benefit Association, a life insurance company incorporated under the laws of the State of Utah, shares common directors and officers with the Company. Because sufficient differences in the policyholder control of the two mutuals are in existence, permission was granted, by the Insurance Commissioner of the State of Utah, for the exclusion Electric Mutual Benefit Association from the classification of a controlled affiliate.

### Agreements With Affiliates

The Company shares costs, without markup or discount, with its affiliates. Pursuant to the agreements the Company will provide each with the necessary personnel, work space, equipment, data processing service and other operational needs for use in connection with administrative, claims processing, accounting and other functions. The agreement with First Continental Life & Accident Insurance Company was written and made effective as of January 1, 1995.

Utah Insurance Department Rule R590-70-4 requires that the cost sharing arrangement between the Company and its affiliate be reported on Holding Company Form B. The agreement has not been reported.

### **FIDELITY BOND AND OTHER INSURANCE**

As of December 31, 1994, the Company does not carry fidelity bond coverage. The minimum amount of fidelity coverage required, determined using the guidelines provided in the NAIC's Examiners Handbook, is between \$350,000 and \$400,000 per occurrence.

The Company is named as an insured on policies providing coverage for; general liability, excess liability, personal property, workers' compensation and employers' liability, and directors and officers liability.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

#### Pension

The Company has a defined benefit pension plan and a 401(k) employees savings plan. Each plan is qualified and covers substantially all of the Company's employees. The defined benefit pension plan is funded by the employer only. Company contributions to the employees' savings plan are at management's discretion and may not exceed a maximum of 3% of employee compensation.

#### Stock Ownership

There is no stock ownership plan.

#### Insurance Plans

The Company provides and/or makes available coverage for: medical, dental and vision care; life, accidental death and dismemberment, and long-term disability. The premium cost is shared by the employer and the employees.

Provision was made in the financial statement for all Company obligations under pension plans.

### STATUTORY DEPOSITS

Section 31A-4-105 of the Utah insurance Code requires that the Company maintain a deposit in the amount of its required capital of \$1,400,000.

Statutory deposits maintained by or through regulatory agencies as of December 31, 1994 are as follows:

<u>State</u>	<u>Asset</u>	<u>Market Value</u>	<u>Statement Value</u>
Montana	Bonds	\$ 195,546	\$ 201,357
Utah	Bonds	<u>1,454,975</u>	<u>1,437,056</u>
		<u>\$1,650,521</u>	<u>\$1,638,413</u>

Deposit held by the State of Montana is for the benefit of policyholders, claimants and/or creditors of the Company in that jurisdiction only.

Deposit held by the State of Utah is for the benefit of all policyholders, claimants and /or creditors of the Company.

### INSURANCE PRODUCTS AND RELATED PRACTICES

#### Policy Forms and Underwriting

As of December 31, 1994, the Company underwrites, on a direct basis, lines of coverage as follows:

<u>Line</u>	<u>Coverage</u>
Group Accident and Health	Medical, dental and vision insurance benefits, generally limited to usual, reasonable and customary charges as determined by the Company, with respect to each insured member and insured dependent of the group. This insurance is renewable annually with three options available

for the annual deductible. Three groups are insured as of December 31, 1994. Lifetime limit and retention is discussed below under the caption "Reinsurance - Ceded."

**Workers' Compensation** Compensation and employer liability benefits pursuant to the Workers Compensation and Occupational Disease law of the State of Utah and, if required by the insured, Coal Workers' Pneumoconiosis benefits pursuant to Part C of title IV of the Federal Coal Mine Safety and Health Act of 1969. The coverage is continuous until canceled. Pneumoconiosis benefits are not reinsured. Retention of workers' compensation and employer liability benefits is \$750,000 each and every occurrence and \$2,000,000 each claimant, each and every occurrence.

**Water Heater Replacement** Repair or replacement of hot water heaters under a guarantee program provided by a utility company. Coverage is extended to the insured so long as premium continues. Maximum loss is limited to \$600 per occurrence. Retention is 100%.

**Service Contracts** Reimbursement to the insured for losses incurred in fulfilling its obligations under each service contract issued by the insured. Losses result from the repair of various items of personal property. Total premium is paid in advance. Term of the service contracts range from one year to ten years. Retention is 100%.

#### Territory

The states in which the Company is licensed to conduct an insurance operation as of December 31, 1994, and the respective authority granted are as follows:

<u>State</u>	<u>Authority</u>
Montana	Property -Casualty
Oregon	Property - Casualty (excluding Workers Compensation)
Utah	Disability, Property, Surety, Liability, Marine and Transport, Workers' Compensation, and Vehicle Liability
Wyoming	Property and Casualty

Applications for Certificate of Authority have been submitted to the States of Idaho and Washington.

During the two-year period under examination, direct premiums written by state and by line of business is as follows:

	<u>1993</u>	<u>1994</u>
Montana	\$ 0	\$ 0
Oregon		
Water Heater	1,523,543	1,487,884
Utah		
Group Accident and Health	731,935	4,484,192
Workers' Compensation	5,686,265	18,457,249
Service Contract	292,443	288,252
Wyoming	<u>0</u>	<u>0</u>
	<u>\$8,234,186</u>	<u>\$24,717,577</u>

The Company markets workers' compensation through three Utah agencies. Section 31A-23-309 of the Utah insurance Code provides:

"No person may represent himself as the agent of an insurer unless a written agency contract is in effect giving the person authority from the insurer and the insurer has appointed that person as its agent."

Agreements with two of the agencies appointed by the Company were not made available for examination.

#### Market Conduct

The Market Conduct Division of the State of Utah Insurance Department conducted an examination of the Company concurrent with this financial examination. A review of the Company's advertising and sales material and treatment of policyholders fell within the scope of the market conduct examination. No material exceptions had been noted in the market conduct examination as of the issue date of this report.

## REINSURANCE

### Assumed

Pursuant to assumption agreement effective December 31, 1994, the Company, in consideration for the premium paid, assumed 100% liability for benefits payable under certain workers' compensation policies. The policies were canceled by the ceding insurer on June 30, 1994. Liability assumed by the Company includes all benefits payable for all claims reported and not reported as of the effective date of the assumption agreement but incurred prior to June 30, 1994. The liability from this assumption is included in the financial statement under the caption "Loss Portfolio Transfer."

### Ceded

Specific excess insurance is used to reinsure group accident and health coverage issued by the Company. Excess loss from the three groups insured by the Company is ceded to Mega Life and Health Insurance Company. Reinsurance for each group is by separate agreement. The policy lifetime limit, the Company's retention for each person and the lifetime limit of reinsurance ceded per covered employee for each group insured is as follows:

Group	Policy Lifetime Limit	Retention	Reinsurance Lifetime Limit
1	None	\$250,000	\$1,750,000
2	\$1,000,000	250,000	750,000
3	None	100,000	900,000

Effective January 1, 1995, the amount retained for Groups 1 and 2 was reduced to \$100,000 and the reinsurance lifetime limit for Group 2 was increased to \$900,000.

Workers' Compensation coverage issued to an entity with public utility and mining operations located in the State of Utah, is ceded to General Reinsurance Corporation through an intermediary. Loss reinsured is \$15,000,000 each accident in excess of \$750,000 each accident. Losses from Pneumoconiosis are not reinsured.

All other workers' compensation coverage issued by the Company is ceded to various individual reinsurers and groups of reinsurers through an intermediary. The reinsurance coverage is per each and every occurrence for the amount of loss in excess \$750,000 with a limit of \$30,000,000 and per person each and every occurrence for the amount of loss in excess of \$2,000,000 with a limit of \$10,000,000. The excess of loss coverage is in layers as follows:

Each and Every Occurrence

<u>Excess</u>	<u>Amount</u>
First	\$ 1,250,000 to \$ 2,000,000
Second	2,000,000 to 3,000,000
Third	5,000,000 to 10,000,000
Fourth	10,000,000 to 20,000,000
Fifth	20,000,000 to 30,000,000

Person Each and Every Occurrence

<u>Excess</u>	<u>Amount</u>
First	\$ 3,000,000 to \$ 5,000,000
Second	5,000,000 to 10,000,000

**ACCOUNTS AND RECORDS**

The Company's accounting system is automated. Cash receipts are recorded directly to the general ledger from deposits made. Entries for cash disbursements are generated from check registers. The general ledger is maintained using the accrual basis of accounting.

The trial balance of account balances from the general ledger for the year ended December 31, 1994 was traced to and reconciled with the filed annual statement. Individual ledger accounts were reconciled as deemed necessary.

The Company's records are audited annually by an accounting firm.

The Company's reserves for unpaid losses and loss adjustment expenses are reviewed by a consulting actuarial firm. An actuarial opinion is rendered for purposes of filing with state regulatory agencies.

## **FINANCIAL STATEMENTS**



WASATCH CREST MUTUAL INSURANCE CO.  
Balance Sheet  
as of December 31, 1994

**Assets**

	<u>Qualified</u>	<u>Notes</u>
Bonds	\$28,299,016	
Common stocks	5,907,250 ✓	
Cash on hand and on deposit	2,098,088	( 1 )
Short-term investments	1,016,115	
Agents' balances or uncollected premiums	6,824,865	( 2 )
Electronic data processing equipment	175,027	
Interest, dividends and real estate income due and accrued	533,366	( 3 )
Monies due from loss portfolio transfer	<u>2,952,586</u>	
Total assets	<u>\$47,806,313</u>	

The accompanying notes are an integral  
part of the financial statements.

WASATCH CREST MUTUAL INSURANCE CO.  
Balance Sheet  
as of December 31, 1994  
(Continued)

**Liabilities, Surplus and Other Funds**

		<u>Notes</u>
Losses	\$19,306,165	( 4)
Loss adjustment expenses	2,284,527	( 5)
Other expenses (excluding taxes, licenses and fees)	599,202	( 6)
Taxes, licenses and fees (excluding federal and foreign income tax)	801,932	( 7)
Federal and foreign income taxes	1,485,893	( 8)
Unearned premiums, net of ceded reinsurance unearned premiums of \$120,883	6,570,198	( 9)
Amounts withheld or retained by company for account of others	2,452,785	(10)
Payable to parent, subsidiaries and affiliate	408,472	(11)
Loss portfolio transfer	<u>3,385,768</u>	(12)
Total liabilities	<u>37,294,942</u>	
Surplus debenture	\$ 4,647,563	
Unassigned surplus	<u>5,863,808</u>	
Total surplus	<u>\$10,511,371</u>	
Statutory surplus allocation:		
Permanent surplus	1,400,000	
Compulsory surplus	3,298,372	
Security surplus	2,349,186	
Excess surplus	<u>3,463,813</u>	
Total statutory surplus	<u>10,511,371</u>	
Total liabilities and surplus	<u>\$47,806,313</u>	

The accompanying notes are an integral  
part of the financial statements.

WASATCH CREST MUTUAL INSURANCE CO.  
Summary of Operations  
For the Year Ended December 31, 1994

Notes

**UNDERWRITING INCOME**

Premiums earned	<u>\$ 20,105,405</u>	( 2, 6)
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**DEDUCTIONS**

Losses incurred	11,102,091	( 7, 8)
Loss expenses incurred	1,071,168	( 9)
Other underwriting expenses incurred	<u>5,520,626</u>	( 2, 3)

Total underwriting deductions	<u>17,693,885</u>	
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Net underwriting gain	<u>2,411,520</u>	
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**INVESTMENT INCOME**

Net investment income earned	<u>1,201,652</u>	( 1)
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Net investment gain	<u>1,201,652</u>	
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Net income before dividends to policyholders and before federal and foreign income taxes	3,613,172	
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Dividends to policyholders	<u>0</u>	
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Net income after dividends to policyholders but before federal and foreign income taxes incurred	3,613,172	
Federal and foreign income taxes incurred	<u>1,832,893</u>	( 8)

Net income	<u><u>\$ 1,780,279</u></u>	
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The accompanying notes are an integral  
part of the financial statements.

WASATCH CREST MUTUAL INSURANCE CO.  
Capital and Surplus Account  
For the Two Year Period Ending December 31, 1994

	<u>1993</u>	<u>1994</u>	<u>Notes</u>
Surplus as regards policyholders, December 31 beginning of year	\$ 7,668,166	\$ 8,599,746	
Net income	575,113	1,780,279	
Net unrealized capital gains	0	832,250	
Change in non-admitted assets	856,467	(87,108)	( 6)
Payment on surplus fund certificate	<u>(500,000)</u>	<u>(613,796)</u>	
Surplus as regards policyholders, December 31 end of year	<u>\$ 8,599,746</u>	<u>\$10,511,371</u>	

The accompanying notes are an integral  
part of the financial statements.

## NOTES TO FINANCIAL STATEMENT

(1) Cash on hand and on deposit \$ 2,098,088

This item is \$36,066 more than reported by the Company. The change is the result of adjusting the book value of certificates of deposit for accrued discount earned. The Company reported the increase as accrued interest. See Note 3.

(2) Agents' balances or uncollected premiums \$ 6,824,865

This item is \$33,179 more than reported by the Company. Actual amounts collected in the subsequent period were greater than the estimated amounts reported.

(3) Interest, dividends and real estate income due and accrued \$ 533,366

This item is \$35,965 less than reported by the Company. Accrued interest on certificates of deposit was eliminated. See Note 1.

(4) Losses \$ 19,306,165

This item is \$77,874 less than reported by the Company.

The consulting actuarial firm of Taylor - Walker & Associates, Inc. examined the Company's reported reserves. The following recommendations were made:

- a. Reduce the liability for claims incurred but not reported by \$77,874. The adjustment is primarily to the reserve for a service agreement reimbursement policy;
- b. The Company was unable to produce detail claims data for the "All Other Direct" workers' compensation business in a format to facilitate the claims audit requirements. We recommend that the Company obtain software that readily produces workers compensation data, in detail and in summary, which reconcile to the annual statement;
- c. The Company recently engaged the services of an administrator to assist them in obtaining accurate premium and claims information for the service agreement reimbursement policy book of business. We recommend that the Company continue its efforts to produce accurate premium and claims data for this book of business; and
- d. For the workers compensation programs which include black lung exposure, it is recommended that each year the Company obtain a list by name of all terminated participants during the preceding calendar year. This list can be used to determine appropriate reserves for terminated participants, and to ensure accuracy of underlying

reserving data.

( 5) Loss adjustment expenses

\$ 2,284,527

This item is \$1,539 more than reported by the Company.

The consulting actuarial firm of Taylor - Walker & Associates, Inc. examined the Company's reported reserves. The following recommendation was made:

- a. Increase the liability associated with claims incurred but not reported by \$1,539. The adjustment is primarily to the reserve for a service agreement reimbursement policy.

( 6) Other expenses

\$ 599,202

This item is \$336,140 more than reported by the Company. The change includes two adjustments. First, the Company failed to make provision for commissions payable of \$319,273. Second, the amount reported was net of deduction for \$16,867 which represents loans to employees and advances to agents. Since right of offset does not exist, the deduction of \$16,867 has been eliminated

Loans to employees and advances to agents of \$16,867 are not "qualified assets" as defined in Section 31A-17-201(2) of the Utah Insurance Code and accordingly, are treated as assets not admitted.

( 7) Taxes, licenses and fees

\$ 801,932

This item is \$11,265 more than reported by the Company. Premium tax paid during the subsequent period was greater than the estimated amount reported.

( 8) Federal and foreign income taxes

\$ 1,485,893

This item is \$41,924 less than reported by the Company. Federal income tax paid during the subsequent period was less than the estimated amount reported.

( 9) Unearned premiums

\$ 6,570,198

This item is \$141,913 more than reported by the Company. The change is the result of increasing the provision for unearned premium reserve related to a service contract reimbursement policy.

The service contract reimbursement policy was issued March 1, 1993 and canceled May 21, 1995. The term of the service contracts insured range from one year through ten years. Total

written premiums from inception to December 31, 1994, is \$593,918. The Company earns premiums for this business on a pro rata basis over five years, regardless of contract length. The loss exposure on extended service agreement contracts is concentrated toward the latter part of the service contract period. Therefore, premiums should be earned on a basis reflecting this pattern, rather than on the current pro rata basis.

Data related to contract term and premium is included in the Company's records however, it was not compiled in a format that facilitates calculation of unearned premiums. The Company is in the process of compiling the data in the format required to develop unearned premium using the actual term of the service contract and a basis which reflects the loss exposure pattern. The project was not complete at the conclusion of the examination. Accordingly, since the correct unearned premium reserve for this line of coverage cannot be developed, then for purposes of the examination, it is assumed that the reserve is equal to total written premiums of \$593,918 or \$141,913 more than reported by the Company.

(10) Amounts withheld or retained by the company for account of others \$ 2,452,785

This item is \$154,375 more than reported by the Company. The change is the result of reclassifying amounts due a policyholder and former affiliate from the caption "Payable to parent, subsidiaries, and affiliates." See Note 11.

(11) Payable to parent, subsidiaries, and affiliates \$ 408,472

This item is \$154,375 less than reported by the Company. See note 10.

(12) Loss portfolio transfer \$ 3,385,768

This item is \$433,182 more than reported by the Company. The increase is the result of eliminating a reported credit for reinsurance ceded.

As discussed above, under the caption "Reinsurance Assumed," the Company assumed a block of business through a loss portfolio transfer effective December 31, 1994. Subsequent to the transfer the insurers' reinsurer served notice that an existing reinsurance treaty was not assignable to the Company.

## CAPITAL AND SURPLUS

Based on the foregoing financial statement and related comments, the Company has surplus debenture of \$4,647,563 and unassigned surplus of \$5,863,808 for a surplus as regards policyholders of \$10,511,371.

As discussed above, under the caption "History - Surplus Debentures," the Company issued a Surplus Certificate, with principal balance of \$5,295,666, to a policyholder and former affiliate. As of December 31, 1994, surplus debenture of \$4,647,563 represents unpaid principal and accrued interest of \$4,396,027 and \$251,536, respectively.

The unassigned surplus and accordingly, surplus as regards policyholders is \$770,961 less than reported by the Company. The detail for the change is set forth on the following page.



WASATCH CREST MUTUAL INSURANCE CO.  
Examination Changes  
at December 31, 1994

<u>Account</u>	<u>Amount</u>		<u>Change In Surplus</u>
	<u>Company</u>	<u>Examination</u>	
Cash on hand and on deposit	\$ 2,062,022	\$ 2,098,088	\$ 36,066
Premiums and agents' balances	6,791,686	6,824,865	33,179
Investment income due and accrued	569,331	533,366	(35,965)
Losses	19,384,039	19,306,165	77,874
Loss adjustment expenses	2,282,988	2,284,527	(1,539)
Other expenses	263,062	599,202	(336,140)
Taxes, licenses and fees	790,667	801,932	(11,265)
Federal and foreign income taxes	1,527,817	1,485,893	41,924
Unearned premiums	6,428,285	6,570,198	(141,913)
Amounts withheld or retained by company			
for account of others	2,298,410	2,452,785	(154,375)
Payable to parent, subsidiaries and affiliates	562,487	408,472	154,375
Loss portfolio transfer	2,952,586	3,385,768	(433,182)
Total changes			(770,961)
Unassigned surplus reported			<u>11,282,332</u>
Unassigned surplus per examination			<u><u>\$10,511,371</u></u>

## SUMMARY

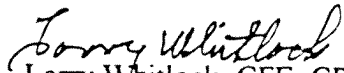
Comments included in this report which are considered to be significant and requiring special attention are summarized below.

1. A surplus fund certificate was issued to a policyholder and former affiliate. (HISTORY - Surplus Debentures).
2. Cost sharing arrangement with an affiliate not reported as required by Utah Insurance Department Rule R590-70-4. (AFFILIATED COMPANIES - Agreements With Affiliates).
3. Fidelity bond coverage is less than the suggested minimum amount. (FIDELITY BOND AND OTHER INSURANCE).
4. Agency agreements are not in writing as required by Section 31A-23-309 of the Utah Insurance Code. (INSURANCE PRODUCTS AND RELATED PRACTICES - Territory).
5. Records do not facilitate audit procedures applicable to review of claims. (NOTES TO FINANCIAL STATEMENT # 4).
6. Records do not facilitate the calculation of unearned premiums. (NOTES TO FINANCIAL STATEMENT # 9).
7. Reinsurance agreement associated with loss portfolio transfer is not assignable to the Company. (NOTES TO FINANCIAL STATEMENT # 12).

## CONCLUSION

The assistance and cooperation extended during the course the examination by officers, employees and representatives of the Company is acknowledged. In addition to the undersigned Taylor - Walker Associates, Inc. Actuarial Consulting Group, representing the Insurance Commissioner of the State of Utah, participated in the examination.

Respectfully submitted,

  
Larry Whitlock, CFE, CPA  
Senior Financial Examiner  
State of Utah Insurance Department